

Bidding for the budget

by

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The way many tenders work, especially for once-off projects in consulting and construction, is for the buyer to solicit bids. But bids are rarely just a simple price. In many situations, they are also an offer of what can be provided for price. So unless the procurement requirements are very carefully specified, different suppliers will offer very different things.

For example, a construction project for a new public amenity may involve some basics that all projects have but also some additional ideas that only some suppliers will have developed. Those additions may have varying costs but may be precisely what a buyer wants. Moreover, the basics may be embedded in these costs, so it is difficult for suppliers to simply 'option' them.

Nonetheless, for the supplier, the lack of specification makes tendering difficult. Not only must you try and put in a winning price (below other bids and the budget of the buyer) you also need to provide a project specification that matches what the buyer wants. Not surprisingly, the two are related. Go for a low price bid and you might not be rejected for not providing enough. Offer lots in the project and your price may be too high.

For the buyer, however, the tender is an opportunity to see precisely how suppliers might deal with a project's objectives. But in the end, with suppliers guessing their needs, one or two of them may really hit the mark. You have to ask yourself whether in that situation you are really saving a lot of money by requiring suppliers to play the tender game.

This situation reminded me of a couple of websites that dealt with markets for knowledge. Both knexa.com and ideasexchange.com offer a service whereby a person may post a problem they have and how much they are willing to pay for a solution. This might be a simple problem or perhaps a more complex chemical procedure. Potential providers read these requests and then tender to provide the solution.

This suggests to me an alternative for buyers in general to think about. When a buyer has not really specified a project, it is usually because they have a budget and some objectives but no clear perspective upon what could be provided. In that case, rather than try to both get that perspective and cut costs, why not focus on the former?

If you have a budget, why not announce this and ask suppliers to submit their best offer of what they could provide for that budget? To be sure, this will mean that you will spend your whole budget. Indeed, for some procurement officers this isn't necessarily a problem. Their budget will go to other parts of the organisation if left unspent.

Significantly, when suppliers bid for the budget, this moves the locus of competition towards what we might nominally call the project's 'quality.'

Bidders now have an incentive to innovate in their offerings to try and win the budget. As I mentioned earlier, there may not be much cost of this in terms of budget savings but there may be large gains in the options available to the buyer. You can let suppliers stew in their own juice in the hope of bringing out the real flavour.

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